

**SANTA BARBARA
METROPOLITAN TRANSIT DISTRICT**

COMPLIANCE REPORTS

June 30, 2004

SANTA BARBARA METROPOLITAN TRANSIT DISTRICT

June 30, 2004

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CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

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Independent Auditor's Report on Compliance and on Internal
Control over Financial Reporting Based on an Audit of
Financial Statements Performed in Accordance with
Government Auditing Standards

Board of Directors
Santa Barbara Metropolitan Transit District
Santa Barbara, California

We have audited the financial statements of Santa Barbara Metropolitan Transit District as of and for the year ended June 30, 2004, and have issued our report thereon dated October 22, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Santa Barbara Metropolitan Transit District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Santa Barbara Metropolitan Transit District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Internal Control Over Financial Reporting - continued

This report is intended solely for the information and use of the board of directors, management, and federal awarding and pass-through entities, and is not intended to be, and should not be, used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

McGowan Guntermann

October 22, 2004



CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

509 E. Montecito Street, 2nd Floor, Santa Barbara, CA 93103, 805.962.9175, fax 805.962.8925, www.mcgowan.com

Independent Auditor's Report on Compliance
with Requirements Applicable to Each Major
Program and Internal Control Over Compliance
in Accordance with OMB Circular A-133 and
Schedule of Expenditures of Federal Awards

Board of Directors
Santa Barbara Metropolitan Transit District
Santa Barbara, California

Compliance

We have audited the compliance of Santa Barbara Metropolitan Transit District with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2004. Santa Barbara Metropolitan Transit District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Santa Barbara Metropolitan Transit District's management. Our responsibility is to express an opinion on Santa Barbara Metropolitan Transit District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Santa Barbara Metropolitan Transit District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Santa Barbara Metropolitan Transit District's compliance with those requirements.

In our opinion, Santa Barbara Metropolitan Transit District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2004-1 and 2004-2.

Internal Control Over Compliance

The management of Santa Barbara Metropolitan Transit District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Santa Barbara Metropolitan Transit District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of Santa Barbara Metropolitan Transit District as of and for the year ended June 30, 2004, and have issued our report thereon dated October 22, 2004. Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the Santa Barbara Metropolitan Transit District's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements of Santa Barbara Metropolitan Transit District. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the board of directors, management, and federal awarding and pass-through entities, and is not intended to be, and should not be, used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

McGowan Guntermann

October 22, 2004

SANTA BARBARA METROPOLITAN TRANSIT DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2004

FEDERAL GRANTOR/PROGRAM TITLE U.S. DEPARTMENT OF TRANSPORTATION – Federal Transit Administration	FEDERAL CFDA NUMBER	FEDERAL GRANT NUMBER	FEDERAL EXPENDITURES
Capital Grant	20.507	CA-90-Y192-00	\$ 3,907,698
Pass through Capital Grant to subrecipient	20.507	CA-90-Y192-00	2,642,799
	20.507	CA-90-Y192-00	53,934
Operating Grant	20.507	CA-90-Y302-01	2,756,159
Capital Grant	20.507	CA-90-X349	<u>95,133</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 9,455,723</u>

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2004

Note 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Santa Barbara Metropolitan Transit District and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

SANTA BARBARA METROPOLITAN TRANSIT DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2004

Section I—Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: **unqualified**

Internal control over financial reporting:

Material weakness identified? **none reported**

Reportable condition identified that are not considered to be material weaknesses? **none reported**

Noncompliance material to financial statements noted? **none reported**

Federal Awards

Internal control over major programs:

Material weakness identified? **none reported**

Reportable condition identified that are not considered to be material weaknesses? **none reported**

Type of auditor's report issued on compliance for major programs: **unqualified**

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? **yes**

Identification of major programs:

CFDA Number

20.507

Name of Federal Program or Cluster

U.S. DEPARTMENT OF TRANSPORTATION - Federal Transit Administration

Dollar threshold used to distinguish between type A and type B programs: **\$500,000**

Auditee qualified as low-risk auditee? **no**

Section II—Financial Statement Findings

None

SANTA BARBARA METROPOLITAN TRANSIT DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2004

Section III—Federal Award Findings and Questioned Costs

2004-1 20.507 U.S. DEPARTMENT OF TRANSPORTATION - Federal Transit Administration
Grants No. CA-90-X349, CA-90-Y129, CA-90-Y302-01

Criteria or specific requirement

Procurement and Suspension and Debarment

Condition

The District's procurement policies do not include determining if vendors are suspended or debarred. We did verify that vendors that we did test were in fact not suspended nor debarred, including significant bus procurements which had evidence that the manufacture was neither suspended nor debarred.

Recommendation

The District should modify its procedures to include determining that vendors are not suspended or debarred, such as reviewing the Excluded Parties Review System website.

Management's response

The District has reorganized its staff which will result in an additional employee becoming versed in all federal compliance issues. As a result, new procedures will be implemented during the next fiscal year to address the issue of debarment list review.

2004-2 20.507 U.S. DEPARTMENT OF TRANSPORTATION - Federal Transit Administration
Grant No CA-90-Y129

Criteria or specific requirement

Reporting

Condition

The District requested and received \$307,698 in excess of the \$3,600,000 grant limit for the acquisition of 40' diesel buses. The excess amount was subsequently deducted from a later request in July 2004 for an additional grant for regional coaches.

Recommendation

The District should modify its procedures to include reviewing grant limits prior to submitting requests for funding, such as a concurring review of the request by another person utilizing a review checklist.

Management's response

The District will institute new procedures relating to federal grant draw downs. Either the compliance officer or a second finance staff manager will review draw downs requests before they are submitted.

SANTA BARBARA METROPOLITAN TRANSIT DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2003

Section III—Federal Award Findings and Questioned Costs

NO FINDINGS FOR THE YEAR ENDED JUNE 30, 2003